ANNUAL REPORT FOR THE YEAR NINETEEN SIXTY-EIGHT

TRADERS GROUP LIMITED

"Carplan", a unique and colorful point of purchase merchandising program which, last year, generated increased consumer awareness of Traders auto financing services in dealer showrooms across the country.

Traders entered the winner's circle for the first time in The Financial Post's 1968 Annual Report Awards, taking top honors in the financial and real estate category. Presentation to Mr. R. M. Willmott, right, president, was made by Mr. Paul S. Deacon, editor and publisher of the Post. Traders in 1968 also won the Financial World, New York, "Best of Industry" annual report award for the second year in a row.

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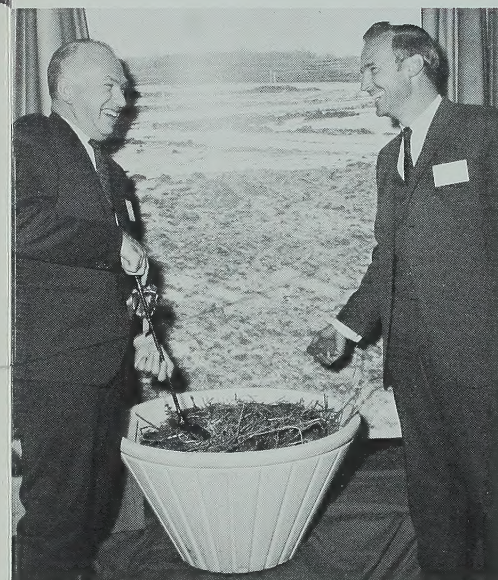
TRADERCOM, code name for Traders new Telex network, was introduced on a test basis in two divisions in 1968 to measure costs and communications efficiencies before being implemented company-wide. It is expected that Telex can almost eliminate long distance person-to-person phone use in the company with resultant savings.



Traders realty division launched Windsor's largest housing development in unique sod-turning ceremony on Dec. 10, 1968 by Mayor John Wheelton, left, and Mr. D. W. Naylor, executive vice president, corporate development. It is a 667-acre, $75 million project, to take five years to complete.

"Homeplan", a successful retail lumber dealer promotion by Traders home improvement financing subsidiary, Interprovincial Building Credits, Ltd., became the natural choice in IBC's decision last year to make it part of its new name, effective Jan. 2, 1969.

Keynote speakers in implementation of the finance industry's recently launched national public service program of credit education in schools and service clubs were Mr. E. W. Flanagan, left, president, Trans Canada Credit Corporation Limited and a director of the Canadian Consumer Loan Association, and Mr. H. E. Dynes, executive vice president, Finance Group, Traders, and newly elected director of the Federated Council of Sales Finance Companies.

ABOUT THE COVER

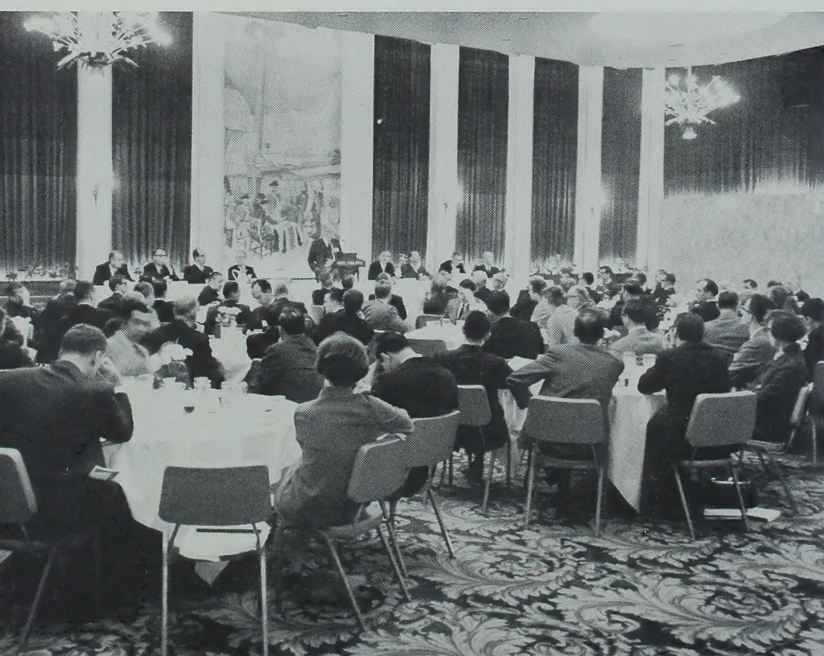
Features the distinctive new Traders trademark and lettering style of the corporate signature, introduced in 1968. The new design represents a natural evolution from the company's former trademark and was implemented to permit the projection of a unified corporate family look in the marketplace for Traders and subsidiary companies in the Finance Group. The cover also features the well-established Traders blue and the new dominant orange colormark of Trans Canada Credit Corporation Limited.

TRADERS GROUP LIMITED

48TH ANNUAL REPORT

December 31, 1968

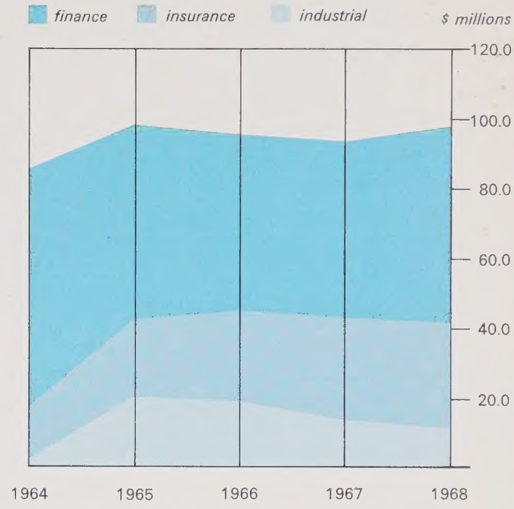
On Nov. 6, 1968 the Toronto investment community received the most detailed look to date at Traders newly structured management group and the progressive changes under way in the 48-year-old company.



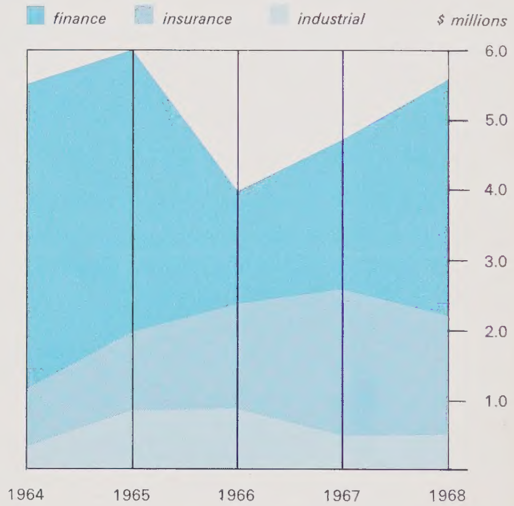
HIGHLIGHTS OF THE YEAR'S OPERATIONS
in thousands of dollars

		1968		1967
Consolidated assets		$ 534,705		$ 521,737
Total income		$ 96,928		$ 93,449
Interest and acquisition cost of money		23,474		21,857
Other direct operating charges		39,303		40,163
Administration expenses and depreciation		22,856		22,832
		85,633		84,852
Profit for the year before income taxes and minority interest		11,295		8,597
Income taxes		5,557		3,735
Profit for the year before minority interest		5,738		4,862
Minority interest in net profits of subsidiaries		119		137
Net profit for the year		5,619		4,725
Interest on income funding rights	$ 9		$ 9	
Dividends on preferred shares	684	693	702	711
Available for common shares		$ 4,926		$ 4,014
Dividends on common shares		$ 2,654		$ 2,652
Earned per common share		$ 1.11		$ 0.91
Paid per common share		$ 0.60		$ 0.60
Common shares outstanding		4,432,571		4,420,091
Number of shareholders				
Common		14,770		15,542
Preferred		2,998		3,066
Consolidated Net Profit by Group		%		%
Finance Group		61		45
Insurance Group		29		44
Industrial Group		10		11
		100		100

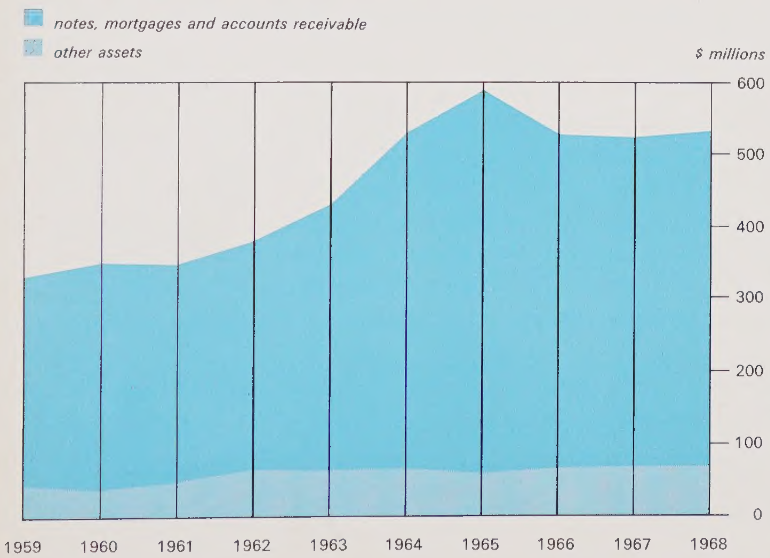
TRADERS GROUP LIMITED—1964-68
CONSOLIDATED GROSS INCOME BY GROUP



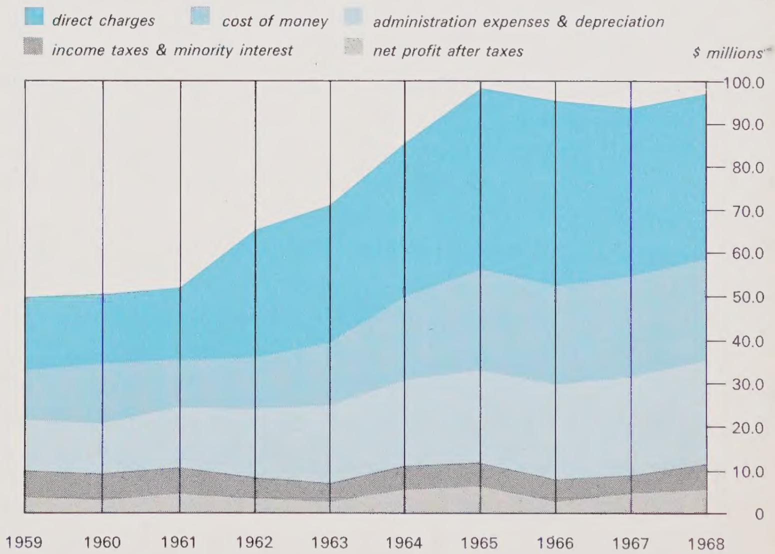
TRADERS GROUP LIMITED—1964-68
CONSOLIDATED NET PROFIT BY GROUP



TRADERS GROUP LIMITED—1959-68
CONSOLIDATED TOTAL ASSETS



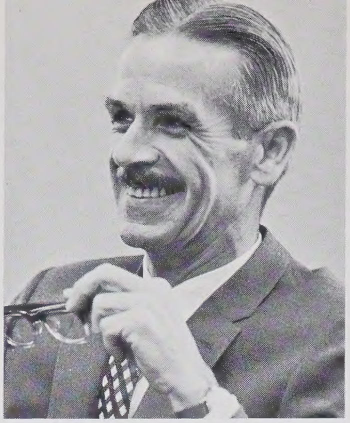
TRADERS GROUP LIMITED—1959-68
DISTRIBUTION OF CONSOLIDATED GROSS INCOME



TRADERS GROUP LIMITED

Incorporated under the laws of Canada—
Executive Offices,
625 Church St., Toronto

H. E. Dynes



W. W. Evans, C.A.

D. W. Naylor

DIRECTORS

J. WILSON BERRY
Chairman
Guaranty Trust Company of Canada

H. E. DYNES
Executive Vice President
Corporate Finance Group
Traders Group Limited

D. W. NAYLOR
Executive Vice President
Corporate Development
Traders Group Limited

W. F. SPRY, F.I.I.C.
Chairman
Canadian General Insurance Company

P. P. DAIGLE
Vice President
Daigle & Paul Limited

W. W. EVANS, C.A.
Executive Vice President
Corporate Treasury & Administration
Traders Group Limited

K. B. PALMER, O.B.E., Q.C., D.C.L.
Counsel
Borden, Elliot, Kelley & Palmer

R. M. WILLMOTT
President
Traders Group Limited

J. S. DINNICK
President
McLeod, Young, Weir & Company Limited

H. R. JACKMAN, Q.C., LL.B.
President
Dominion and Anglo Investment Corporation Limited

B. H. RIEGER
Vice President
Canadian Corporate Management Company Limited

R. F. WILSON, Q.C.
Partner
Day, Wilson & Campbell

EXECUTIVE OFFICERS

R. M. WILLMOTT
President

H. E. DYNES
Executive Vice President
Corporate Finance Group

G. E. WHITLEY
Secretary & Legal Counsel

W. W. EVANS, C.A.
Executive Vice President
Corporate Treasury & Administration

E. A. A. WIGHTON, C.A.
Treasurer

D. W. NAYLOR
Executive Vice President
Corporate Development

DIVISION OFFICERS

J. J. BOURBONNIERE
Vice President
Homeplan Division

A. V. STEELE
Vice President
Consumer Financing Division

E. W. FINGARSON
Vice President
Realty & Mortgage Division

G. D. WALLACE
Vice President
Industrial Financing Division

E. W. FLANAGAN
Vice President
Personal Loan Division

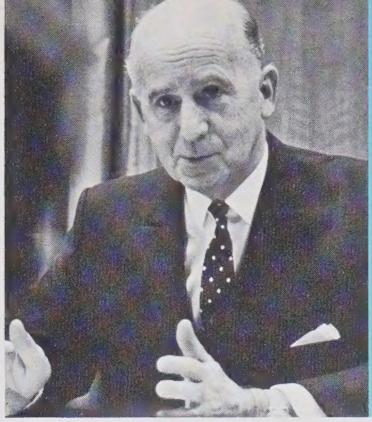
Auditors Price Waterhouse & Co., Chartered Accountants

Transfer Agents and Registrars Guaranty Trust Company of Canada—Toronto, Montreal, Winnipeg, Calgary, Vancouver
Bank of Montreal Trust Company, New York

Trustees *Collateral Trust Notes*—The Royal Trust Company *Debentures*—The Canada Trust Company

Shares Listed Toronto Stock Exchange Montreal Stock Exchange Vancouver Stock Exchange

Bankers
Canada: Bank of Montreal Banque Canadienne Nationale Canadian Imperial Bank of Commerce The Provincial Bank of Canada The Royal Bank of Canada The Toronto-Dominion Bank
United States: National Bank of Detroit Chemical Bank



R. M. Willmott, President

TO THE SHAREHOLDERS

On behalf of your directors, I am pleased to submit herewith the Consolidated Balance Sheet and the Consolidated Statements of Profit and Loss and Surplus of Traders Group Limited and its subsidiary companies, for the year ended December 31, 1968.

In 1968, the company maintained the upward trend in earnings established in 1967. Consolidated net profit after taxes, in 1968 was $5,619,485 on consolidated gross income of $96,928,028, compared with $4,724,427 net profit on $93,448,522 gross income in 1967. The provision for income taxes in 1968 was $5,556,929, up 49% over the previous year.

1968 earnings per common share showed an improvement of 22% over 1967. On 4,432,571 Common Shares outstanding at December 31, 1968, the amount available for common shares was $4,926,288 or $1.11 per share, compared with $4,013,663 or 91 cents per share in 1967, on 4,420,091 shares then outstanding.

The significant growth in earnings in 1968 was accomplished with a relatively small increase in funds in use. Since 1966 the efforts of management have been concentrated on improving the return on various portfolios in the Finance Group before attempting major asset growth, and this has continued to yield excellent results. The management view is that earnings stability and the operating performance factors that contribute to it, are the company's most effective means of adjusting to inflationary trends in the economy.

Except for brief periods during the year, there was a continuous upward trend in the cost of borrowed funds. The amount of interest paid and the cost of acquiring new funds increased from $21,857,058 in 1967 to $23,474,124 in 1968, an increase of $1,617,066, or equivalent to seven per cent. However, through strict control of other direct operating charges, general and administrative expenses and depreciation, a reduction in the total of such charges of $835,750 was effected in 1968, the total being reduced from $62,994,620 in 1967 to $62,158,870 in 1968.

In 1968, your company received considerable support from investors and lenders in Canada and the United States, despite the unprecedented demands on the capital markets of both countries from both the private sector and government. In November, 1968 the company successfully negotiated a private placement in the United States of $15,450,000 of long term Collateral Trust Notes and in the same month an issue of $7,500,000 of five-year Collateral Trust Notes was sold to the public in Canada. The latter part of 1968 also saw the company establish important bank credit lines in the United States, with the National Bank of Detroit, and with the Chemical Bank.

Balance Sheet

Total assets were $534,705,434 at December 31, 1968 compared with $521,737,253 at the end of 1967.

Reference should be made to the Notes to the Consolidated Financial Statements on page 12 and to the detailed explanation of balance sheet items on page 17.

Note 4 to the financial statements on page 13 gives details of our investments, including $1,367,550 in common and preference shares of Cadillac Development Corporation Limited. While these shares do not presently have a quoted market value, it is expected that not later than June 1969 the common shares will have a quoted market value and will show a substantial appreciation over cost.

During 1968, the following long term Collateral Trust Notes were issued:

$10,500,000	Series AK 8% due December 1, 1988 (repayable in United States funds)
7,500,000	Series AL 8¾% due December 15, 1973
$18,000,000	

In addition to the above, Series AK Notes totalling $4,950,000 were sold for delivery on January 15, 1969 and payment was received on that date. On January 2, 1969, $6,300,000 Series U 5½% Notes were redeemed. The only other issues maturing in 1969 are debentures totalling $5.1 million.

Under the heading Unearned Income, finance charges increased by $2,229,532 to $41,618,202, an increase of over five per cent. While part of this increase was due to growth in receivables, reference should be made to Note 9 on page 15 of this report for an explanation of a portion of the increase. Your company continues to make a modest charge for acquisition costs on instalment contracts.

Operations

In the "Review of Operations", starting on page 19, shareholders will find a detailed outline of the operating performance in 1968 of Traders Group Limited and the principal subsidiary companies. The statistics in this section reflect clearly that in recent years Traders has developed a skilled group of management people who are dedicated to moving the company forward in an orderly but decisive manner.

As pointed out in the "Review of Operations", the net profit contribution of the Finance Group, which started to move ahead in 1967, reached a more normal level in 1968. It increased to $3,410,530 or 61% of consolidated profit, compared to $2,135,770 or 45% in 1967. The Insurance Group net profit contribution was $1,663,630 or 29%, compared to $2,070,165 or 44% in 1967. The reduced percentage was partly due to the increased profits from the Finance Group and was partly due to an across the board lowering of automobile premium rates as well as being a difficult year with respect to the high frequency and cost of claims. The 1968 performance of the Industrial Group, of which Frankel Structural Steel Limited is the principal component, was particularly pleasing. Although contracts for major undertakings were down from their high level in the 1966-67 period, the Industrial Group ended the year with a better-than-forecast net profit contribution to consolidated results of $545,325 or 10%, compared with $518,492 or 11% of the total in 1967. The maintaining of profit margins and the flow of new

business at satisfactory levels contributed to the good results.

Streamlining of the organization continued in 1968. In March last year, all accounting activities in the parent company were consolidated into one division for better co-ordination and uniformity of accounting policies and procedures. In the Administration Control Division there was also consolidation of activities formerly maintained separately by some subsidiaries of the company. An important development during the year, facilitated by these steps, was to establish improved cost control centres within the Finance Group and Head Office staff departments.

The cost control concept complements the company's profit forecast planning process whereby all divisional and corporate income and expenses are projected on a monthly and annual basis. Thus, we are now able to monitor and adjust, throughout the calendar year, the organization's profit performance with established targets. We are now developing a five-year planning cycle to identify the long term key strategies, profit contribution and cash requirements of each financial portfolio. This approach is consistent with management's view that in the present competitive market for lending services, much time and effort must go into forecasting the future needs of customers.

General

The company in 1968 continued to donate generously the time and experience of a number of senior staff personnel in support of the activities of the two finance industry associations, the Federated Council of Sales Finance Companies, and the Canadian Consumer Loan Association, which serve the interests of the member-companies on an industry-wide basis.

Shareholders will be particularly interested to know that the two associations undertook in 1968 the joint sponsorship of a national community relations program. To date it involves the organization and training of branch managers of member-companies of both associations in approximately 200 centres across Canada for the purpose of promoting consumer credit education in high schools, service clubs, et cetera, through the use of films, talks and printed material. This program is designed to utilize the industry's field management personnel to foster better understanding of responsible use of credit, especially among young people.

Mr. H. E. Dynes, Executive Vice President—Finance Group, was elected a director of the Federated Council in 1968, replacing Mr. W. W. Evans, Executive Vice President—Treasury and Administration. Mr. Evans was a director of Council for seven years and in 1967 completed a two-year term as president.

On October 31, 1968, your Board of Directors was saddened by the death of a distinguished member of the Board, Mr. J. H. Ratcliffe, C.B.E., Chairman of McLeod, Young, Weir & Company Limited, Toronto. Mr. Ratcliffe had been a director of the company since 1955.

Mr. Roland F. Wilson, Q.C., LL.B., partner in the legal firm of Day, Wilson & Campbell, Toronto, and Mr. John S. Dinnick, President of McLeod, Young, Weir & Company Limited, Toronto, were appointed to the Board in 1968.

Outlook

There is no doubt that the early months of 1969 have seen a serious deterioration in the long term bond market with Government of Canada bonds, Provincial and Corporation bonds selling at unprecedented high yields. There is no indication at the present time when the bond market will improve, however, there are signs that the bottom of the market may have been reached. Since there is a definite hesitation on the part of investors to buy long term bonds at this date, it would be a mistake for the company to plan for substantial growth in 1969. In the Annual Report for 1967, the following was said: "Available funds will be concentrated on a conservative basis in higher yield loans". This was done with good results and the trend will be continued in 1969, with some additional planned growth in certain portfolios of receivables.

In 1969 the Finance Group is expected to increase the profit return to the company through a moderate addition of funds in use in the more profitable portfolios and continuing emphasis on the quality of finance paper purchased.

The Insurance industry is passing through difficult times because of inflationary trends, legislation, and the difficulty of setting adequate premium rates in some areas because of competitive pressures. The Canadian General Group of Companies have, over the years, consistently had lower loss ratios than the industry and are expected to provide your company with a satisfactory return in 1969.

Although Frankel Steel Construction Limited began the year 1969 with less than the normal backlog of orders, there is no doubt that the booming building trade in Metropolitan Toronto and Southern Ontario will continue to provide substantial demands for the company's products and services.

Generally speaking, therefore, it is expected that in 1969 our company will continue to show a reasonable increase in per share earnings, carrying on the trend of 1967 and 1968.

This year your directors wish to pay special tribute to the efficient and painstaking work of the employees of all companies in the Group. Particular praise must go, however, to those members of senior management who have contributed so much by their efforts to the improvement of company profits.

Submitted on behalf of the Board.

March 14, 1969. *President*

AUDITORS' REPORT

PRICE WATERHOUSE & CO.
P.O. Box 51
Toronto-Dominion Centre
Toronto 1

March 3, 1969

To the Shareholders of
TRADERS GROUP LIMITED:

We have examined the consolidated balance sheet of Traders Group Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of profit and loss and surplus for the year then ended. Our examination of the financial statements of Traders Group Limited and the majority of its subsidiary companies included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries. The assets of these companies, as included in the consolidated balance sheet, amount to 4.2% of the total consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co

Chartered Accountants.

TRADERS GROUP LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1968

	1968
Gross income from operations	$93,812,380
Investment income	2,964,298
Profit (loss) on sale of securities	151,350
	96,928,028
Direct operating charges*	62,776,713
General and administrative expenses (including remuneration of salaried directors and directors' fees, 1968—$249,982; 1967—$232,263)	21,692,000
Depreciation and amortization of fixed assets	1,164,281
	85,632,994
Profit before income taxes and minority interest	11,295,034
Income taxes	5,556,929
Profit before minority interest	5,738,105
Minority interest in net profits of subsidiaries	118,620
Net profit for year	$ 5,619,485

*Direct operating charges—	
Interest paid by the company on—	
Collateral trust notes—bank loans	$ 4,988,165
—short term	3,711,354
—long term	10,817,720
	19,517,239
Debentures	3,136,312
	22,653,551
Mortgage interest	320,181
Other interest	628,569
Cost of acquisition of borrowed money (net of discounts on purchases and redemptions—1968—$584,169; 1967—$396,754)	(128,177)
	23,474,124
Industrial cost of sales	9,038,320
Insurance claims	17,371,531
Credit losses	4,686,245
Other direct charges including commissions and registration	8,206,493
	$62,776,713

TRADERS GROUP LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1968

	1968
Balance January 1	$24,834,676
Adjustments arising during the year*	165,795
	25,000,471
Consolidated net profit for the year	5,619,485
Less:	
Interest on income funding rights (net of subsidiary holdings)	8,934
Dividends on cumulative redeemable preferred shares— 4½% (net of subsidiary holdings)	136,292
5%	58,298
5% convertible, Series A	489,673
	693,197
Available for common shares	4,926,288
Dividends on common shares	2,653,927
	2,272,361
Balance December 31	$27,272,832

*Adjustments arising during the year—	
Gain on disposal of land and buildings of a subsidiary company	$ 350,813
Changes in holdings in subsidiaries	36,607
Amortization of cost of issuing Series A preferred shares, net of gain on redemption	(145,545)
Transfer to contingent reserve	(76,080)
	$ 165,795

Consolidated surplus consists principally of retained earnings and is reduced by the net excess of the purchase price of the shares in subsidiary companies over their book value when acquired.

As a result of the redemption of preferred shares, Series A, $818,250 of the above surplus is designated as Capital Surplus under Section 61 of the Canada Corporations Act.

TRADERS

and subsidiary companies

CONSOLIDATED BALANC

ASSETS	1968	
CASH IN BANK		$ 4,473,496
NOTES, MORTGAGES AND ACCOUNTS RECEIVABLE:		
Instalment contracts	$295,734,853	
Wholesale advances	59,002,696	
Interest bearing loans	79,997,634	
Mortgages	17,639,941	
Real property held for resale (Note 2)	6,534,758	
Loans to associated companies	2,326,373	
Accounts receivable	10,924,231	
	472,160,486	
Less—Allowance for doubtful accounts	6,624,418	
		465,536,068
INVENTORIES OF SUBSIDIARY COMPANIES (Note 3)		4,894,872
INVESTMENTS, AT COST (Note 4):		
Investments having a quoted market value (Indicated market value, 1968—$44,065,030; 1967—$38,230,889)	43,486,023	
Investments in associated companies	1,463,937	
Other investments	1,568,073	
		46,518,033
		521,422,469
FIXED ASSETS:		
Land, at cost	1,789,398	
Buildings and equipment, at cost	13,913,108	
	15,702,506	
Less—Accumulated depreciation	6,623,607	
	9,078,899	
Unamortized cost of assets in hands of lessees	4,171	
		9,083,070
OTHER ASSETS:		
Unamortized cost of borrowed money	3,728,749	
Unamortized cost of issuing Series A preferred shares	471,146	
		4,199,895
		$534,705,434

APPROVED ON BEHALF OF THE BOARD:

R. M. WILLMOTT, *Director*
W. W. EVANS, *Director*

HEET—DECEMBER 31, 1968

LIABILITIES

	1968	
PAYABLES:		
Accounts payable and accrued charges	$ 9,092,674	
Wholesale due to manufacturers	7,523,051	
Interest accrued	3,928,700	
Dividends payable	846,344	
Income taxes	4,574,664	
Insurance claims	16,588,649	
Dealers' credit balances	6,170,772	
		$ 48,724,854
DEFERRED INCOME TAXES (Note 5)		2,363,473
SECURED DEBT (Notes 6 and 7):		
Collateral trust notes—bank loans	50,112,580	
—short term	49,783,394	
—long term	198,268,888	
	298,164,862	
Bank loans of subsidiaries	5,804,000	
Mortgages and mortgage bonds	3,793,814	
		307,762,676
OTHER DEBT:		
Debentures of the company (Note 8)	51,148,000	
Debentures of subsidiary	1,096,500	
Notes payable by subsidiary	1,230,500	
		53,475,000
		412,326,003
UNEARNED INCOME:		
Finance charges (Note 9)	41,618,202	
Insurance premiums	13,505,751	
		55,123,953
MINORITY INTEREST IN CAPITAL AND SURPLUS OF SUBSIDIARIES		1,073,645
CAPITAL AND SURPLUS (Note 10):		
Preferred shares	13,658,310	
Common shares	24,229,697	
	37,888,007	
Contingent reserve (Note 11)	1,020,994	
Surplus	27,272,832	
		66,181,833
		$534,705,434

TRADERS GROUP LIMITED

and subsidiary companies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—DECEMBER 31, 1968

1. Subsidiary Companies

The following table sets forth, as at December 31, 1968 the details of all investments in the subsidiary companies included in the accompanying consolidated financial statements.

	Effective % held by company	Total capital and surplus of subsidiary	Investment at cost	Advance from the company
Finance Group:				
Trans Canada Credit Corporation Limited	100.00	$ 2,058,816	$ 1,010,000	$ 61,200,000
Traders Realty Limited	100.00	620,334	31,000	29,950,000
Interprovincial Building Credits, Ltd.	99.94	4,916,350	3,138,811	34,225,000
Subsidiaries—				
Traders Mortgage Company	99.16	751,378	489,512	—
Homeplan Realty Limited	99.94	(37,924)	3,000	—
Aetna Factors Corporation Ltd.	90.00	1,091,587	921,805	3,150,000
Traders Properties (Church St.) Limited	100.00	5,000	5,000	1,203,320
Domac Realty Limited	100.00	384,116	324,656	—
Sudbury Garage Properties Limited	100.00	26,550	40,800	—
Forest Glenn (Dixie) Limited	100.00	989,185	275	—
Traders Developments Limited	100.00	(20)	520	—
Subsidiaries—				
Traders Developments (Kitchener) Limited	80.00	(3,477)	400	—
Traders Developments (Windsor) Limited	100.00	(2,799)	500	—
Insurance Group:				
Traders General Insurance Company	98.84	3,487,187	1,448,564	—
Canadian Insurance Shares Limited	97.59	2,285,714	1,286,756	—
Subsidiaries—				
Canadian General Insurance Company	95.03	8,557,471	1,030,744	—
Toronto General Insurance Company	92.60	6,804,630	812,566	—
Industrial Group:				
Frankel Steel Construction Limited and Subsidiaries	100.00	5,383,854	3,962,216	—

2. Real Property Held for Resale

These properties were acquired as a result of foreclosure action on loans in default and are valued at the lower of the principal balance of the loan at the date of foreclosure or the estimated realizable value for each property after deducting first mortgages in the amount of $13,824,587; 1967—$1,073,980. Subsequent to December 31, 1968 an agreement has been made to sell a foreclosed property to an associated company. This property had a book value of $3,538,000 after deduction of the first mortgage of $13,694,587.

Prior to December 31, 1968, foreclosure action had been commenced in respect of further loans. These loans are carried in the balance sheet at approximately $2,300,000 which is the estimated realizable value of the properties involved, after provision for anticipated losses and prior charges.

3. Inventories of Subsidiary Companies

Industrial Group—	
Unfabricated steel and supplies valued at the lower of average cost or replacement cost	$1,240,769
Estimated value of jobs in progress, less progress billings	1,307,091
	2,547,860
Finance Group—	
Inventory of land under development, at cost including carrying charges	2,347,012
	$4,894,872

4. Investments, at Cost

	Cost	Quoted Market Value
Investments having a quoted market value:		
Held by Traders Group Limited		
—Guaranty Trust Company of Canada, 706,200 common shares	$ 5,375,046	$ 8,297,850
—Other	200,000	239,999
Held by the Insurance Group	36,085,977	33,702,181
Held by the Industrial Group	1,825,000	1,825,000
	$43,486,023	$44,065,030
Investment in associated companies:		
—Equity in partnerships: Finance Group	$ 930,010	
Industrial Group	521,080	
—Other	12,847	
	$ 1,463,937	
Other investments:		
—Cadillac Development Corporation Limited,		
1,519,941 Common shares	$ 1,060,850	
30,670 Class "A" preference shares	306,700	
	1,367,550	
—Other	200,523	
	$ 1,568,073	

The common and preference shares of Cadillac Development Corporation Limited did not have individual market value quotations as at December 31, 1968. As a result of an issue of securities to the public on December 18, 1968 the common shares will have a quoted market value on or before June 18, 1969. Under the underwriting arrangement of this issue the company is party to an agreement restricting the sale of its shareholdings until December 18, 1969, or such earlier date as may be agreed upon by the parties to the agreement.

5. Income Taxes

Finance and Industrial groups—

Deferred income taxes

Deferred income taxes arise when accounting income exceeds taxable income as a result of the inclusion of revenue and expense items in taxable income in periods other than those in which they are included in income for accounting purposes. The amount deferred represents a provision for future taxes payable when accounting income will be lower than taxable income.

The provision for income taxes on the accounting profits for 1968 was less than income taxes payable by $58,597 and this amount has therefore been transferred from deferred income taxes to income taxes payable.

Insurance Group—

Deferred income taxes

Consistent with prior years and accepted practice in the general insurance industry, no provision has been made for deferred income taxes on unearned premiums of the insurance group which are carried at approximately 80% of the amount permitted for income tax purposes.

Income taxes payable—

Current income taxes payable have been reduced by $250,000 as a result of loss carry-forward provisions of income tax legislation.

6. Collateral Trust Notes

(a) Bank loans—

Series "C" and "CC" notes to secure demand bank borrowings are issued and cancelled from time to time in such amounts as are required—

Series "C" notes		$44,750,000
Series "CC" notes repayable in United States funds	$ 5,000,000	
Exchange at balance sheet date on series "CC" notes	362,580	5,362,580
		$50,112,580

(b) Short term notes—

Canadian funds	$47,099,800	
United States funds	2,500,000	
	49,599,800	
Exchange at date of acquisition on notes repayable in United States funds	183,594	
		$49,783,394

(c) Long term notes—

Series	Rate and Maturity	Maximum annual purchase fund	Issued	Balance outstanding
R	4½% April 15, 1970	$ —	$10,000,000	$ 10,000,000
S	4½% April 1, 1976	—	10,000,000	10,000,000
T (1)	4¾% May 1, 1971	—	10,000,000	10,000,000
U	5½% January 2, 1969	—	6,300,000	6,300,000
V (1)	5⅜% May 1, 1977	—	10,000,000	10,000,000
W	5¾% June 15, 1972	—	2,000,000	2,000,000
X	5¾% April 1, 1979	—	7,500,000	7,500,000
Y	5¾% September 15, 1981	375,000	15,000,000	13,177,000
Z	5¾% April 15, 1983	250,000	10,000,000	9,435,500
AA (1)	5¼% May 15, 1983	250,000	10,000,000	9,000,000
AB	5¾% May 1, 1984	250,000	10,000,000	9,477,000
AC	5¾% September 15, 1984	375,000	15,000,000	13,722,000
AD	5¾% April 15, 1985	375,000	15,000,000	14,042,500
AE (1)	6¼% April 1, 1986	—	12,500,000	12,500,000
AF (2)	6¾% June 15, 1981	250,000	10,000,000	9,500,000
AG	7¾% December 1, 1970	—	4,850,000	4,850,000
AH	7¾% December 1, 1986	78,750	3,150,000	2,994,000
AI (1)	7¼% July 1, 1987	—	17,700,000	17,700,000
AJ	7¾% September 15, 1987	125,000	5,000,000	4,875,000
AK (1)	8% December 1, 1988	—	10,500,000	10,500,000
AL (3)	8¾% December 15, 1973	—	7,500,000	7,500,000
		$2,328,750		195,073,000
Exchange at date of acquisition on notes repayable in United States funds				3,195,888
				$198,268,888

(1) Repayable in United States funds.

(2) Issued in 1966, with warrants exercisable to June 15, 1976 to purchase Class A common shares at the rate of 20 such shares per $1,000 principal amount of Series AF notes, at the price of $13 per share.

(3) Exchangeable at the option of the holder after June 15, 1973 and prior to their maturity for 8¾% Collateral Trust Notes, Series AL, maturing December 15, 1988.

Subsequent to the year-end the company issued an additional $4,950,000 U.S. 8% Collateral Trust Notes Series AK and repaid $6,300,000 Collateral Trust Notes, Series U at their maturity on January 2, 1969.

7. Mortgages and Mortgage Bonds

The mortgages and mortgage bonds secured on certain real property of the company and its subsidiaries, bear interest rates from 4% to 7½% and mature at various dates from 1969 to 1983 inclusive.

8. Debentures of the Company

Sinking fund—	Maturity date		Annual Sinking fund or maximum annual purchase fund	Issued	Balance outstanding
5%	April	15, 1969	$ —	$ 4,000,000	$ 2,505,000
4¾%	May	1, 1969	—	4,000,000	119,000
5½%	October	1, 1969	—	4,000,000	2,509,500
4¾%	March	15, 1971	150,000	6,000,000	4,200,000
5%	September	15, 1972	125,000	5,000,000	3,500,000
5¾%	March	1, 1973	150,000	6,000,000	4,350,000
5¾%	October	15, 1974	125,000	5,000,000	3,750,000
6¾%	April	15, 1975	150,000	6,000,000	4,825,500
			700,000		
Purchase fund—					
6%	October	15, 1982	225,000	7,500,000	6,758,500
6%	November	1, 1984	180,000	6,000,000	5,566,500
6%	June	1, 1985	120,000	4,000,000	3,820,000
6½% (1)	November	15, 1970	300,000	10,000,000	9,244,000
			$1,525,000		$51,148,000

(1) Issued in 1965, with warrants exercisable to November 15, 1972 to purchase Class A common shares at the rate of 25 such shares per $1,000 of principal amount of debentures, at the price of $15 per share.

9. Unearned Finance Charges

Unearned finance charges on instalment contracts are computed by the sum of the digits method presuming contracts to be purchased at the middle of each month, less an allowance for acquisition costs.

In accordance with company policy, the unearned income so calculated is sufficient to provide for rebate of unearned finance charges presuming prepayment of all outstanding instalment contracts. The implementation of this policy, including the enactment of Consumer Protection legislation in 1967 and 1968, gave rise to the following:

	1967	1968	Total
Increase in unearned finance charges	$890,000	$1,255,000	$2,145,000
Decrease in net profit after income taxes	435,000	585,000	1,020,000

10. Capital

	Authorized		Issued	
	Shares	Amount	Shares	Amount
Cumulative redeemable preferred shares—				
4½% preferred shares of $100 par value	35,000	$ 3,500,000	35,000	$ 3,500,000
Less—Held by subsidiaries			5,022	502,200
			29,978	2,997,800
5% preferred shares of $40 par value	125,000	$ 5,000,000	125,000	5,000,000
Less—Converted to Class A common shares, in prior years			95,851	3,834,040
			29,149	1,165,960
Preferred shares issuable in series with a $30 par value	800,000	$24,000,000		
Series A 5% convertible preferred shares (1)			350,000	10,500,000
Less—Purchased and cancelled (of which 9,050 were purchased during the year)			27,275	818,250
Converted to Class A common shares during the year			6,240	187,200
			316,485	9,494,550
				$13,658,310

(1) The Series A preferred shares were convertible into two Class A common shares for each Series A preferred share held up to October 1, 1968, and are convertible at that rate plus $2.00 for each Series A preferred share converted after October 1, 1968 up to and including the expiry of the conversion privilege on October 1, 1971. The terms of issue of the Series A preferred shares include a provision for a purchase fund by which the company is to apply (subject to certain conditions) $210,000 in each year commencing in 1966 for the purchase for cancellation of the Series A preferred shares, to the extent that such shares are available for purchase by the company at a price not exceeding $28 per share plus costs of purchase. To December 31, 1968 the company had applied $635,765 for the purchase of 27,275 Series A preferred shares.

Common shares, without nominal or par value—	Authorized	Issued Shares	Issued Amount
Class A (including 12,480 shares issued during the year on conversion of Series "A" Preferred Shares)	6,000,000	3,712,571	$23,749,697
Class B	720,000	720,000	480,000
		4,432,571	$24,229,697

Class A common shares reserved for issue:

	Expiry Date	Price	Number of Class A common shares reserved
Upon conversion of Series A preferred shares	October 1, 1971	$16	632,970
On exercise of stock purchase warrants—			
Issued in 1965 with 6½% Debenture due November 15, 1970	November 15, 1972	15	250,000
Issued in 1966 with Series AF Collateral Trust notes due June 15, 1981	June 15, 1976	13	200,000
			1,082,970

Income funding rights:

There are outstanding 13,653 Series "A" and 6,171 Series "B" income funding rights (of which 11,451 are held by subsidiaries) with a total aggregate face value of $507,287. Non-cumulative interest at the rate of $1.00 per annum per right is payable out of the net profits of each fiscal year or to the extent that such profits are available before payment of dividends on the preferred shares. In the event of liquidation, the income funding rights rank after the 4½% cumulative redeemable preferred shares but in priority to all other preferred shares and to the common shares.

11. Contingent Reserve

	1968	1967
Finance Group		
Provision for possible exchange losses on long term debt repayable in United States funds, arising from devaluation of the Canadian dollar in 1962—		
Balance January 1	$ 583,914	$830,114
Less—Provision for foreign exchange loss on Series Q Collateral Trust notes included therein	—	322,280
	583,914	507,834
Add—Transfer from earned surplus for the year	76,080	76,080
	659,994	583,914
Insurance Group		
Contingent reserve of insurance subsidiaries	361,000	361,000
Balance December 31	$1,020,994	$944,914

12. Contingent Liabilities

The company and its subsidiaries in the normal course of business have guaranteed present and future advances to and letters of credit for customers and associated companies to a maximum of $6,927,408 of which $4,439,511 was outstanding as at December 31, 1968.

The company is also guarantor in the amount of $2,708,191 with respect to first mortgage advances by the principal lender on joint mortgages in which the company and certain subsidiaries participate.

Under mortgage actions a subsidiary of the company obtained orders of foreclosure in 1968 on certain properties on which the subsidiary's loans aggregated $925,688. On a motion by the debtor to set aside the foreclosure order, judgment was obtained in favour of the subsidiary. The debtor has appealed but in the opinion of counsel, the judgment in favour of the subsidiary should be upheld. The same debtor has sued the subsidiary and the company for unspecified damages in connection with other properties. In the opinion of the company's counsel, in the absence of a successful appeal in the said mortgage action, it is unlikely that the debtor will receive any significant recovery in this subsequent action.

13. The premises formerly occupied by a subsidiary company were expropriated by the Municipality of Metropolitan Toronto and possession was given in October, 1963. Pending settlement of the company's claim against the municipality, expenses attributable to the move to new premises have been deferred and no adjustment has been made for the cost of fixed assets which could not be moved and which have been replaced at the new premises.

EXPLANATION OF BALANCE SHEET

The following information on certain items supplements the Notes to the Consolidated Financial Statements. All amounts quoted are in *thousands* of dollars. Additional information on maturities of operating assets and liabilities and an analysis of notes, mortgages and accounts receivable is shown on page 28.

ASSETS

NOTES, MORTGAGES & ACCOUNTS RECEIVABLE

Instalment contracts

Traders Group Limited	$ 204,467
Trans Canada Credit Corporation Limited	45,452
Interprovincial Building Credits, Ltd.	45,816
	$ 295,735

Outstanding balances which included finance charges, arose principally on the purchase of instalment sales obligations resulting from sales of automobiles, trucks, industrial and commercial equipment, and other durable goods.

Wholesale advances

Traders Group Limited	$ 58,080
Trans Canada Credit Corporation Limited	7
Traders Realty Limited	916
	$ 59,003

Advances which arose from the financing of dealer inventories of durable goods and included $7.5 million not payable by dealers to manufacturers at the balance sheet date. See "Wholesale due to manufacturers" on page 18.

Interest bearing loans

Traders Group Limited	$ 20,306
Trans Canada Credit Corporation Limited	29,082
Traders Realty Limited	16,822
Aetna Factors Corporation Ltd.	13,788
	$ 79,998

The outstanding balances on loans on which the interest is charged monthly.

Mortgages

Finance Group	
Homeplan Realty Limited	$ 8,146
Domac Realty Limited	3,677
Traders Mortgage Company	2,472
Traders Realty Limited	597
Interprovincial Building Credits, Ltd.	38
	14,930
Insurance Group	2,710
	$ 17,640

Homeplan Realty Limited takes mortgage security when financing major home improvements, rural and vacation homes. Domac Realty Limited took back mortgage receivables from the purchasers on the sale of its revenue-producing properties.

The balance of the mortgage receivables in the Finance Group are first mortgages on land and buildings and for the Insurance Group are N.H.A. mortgages.

Loans to associated companies

Loans to associated land development companies secured by mortgages on real property.

Accounts receivable

Finance Group —wholesale finance charges and sundry accounts receivable	$ 2,157
Insurance Group—premiums due from agents	5,968
Industrial Group —trade accounts	2,799
	$ 10,924

Allowance for doubtful accounts

Finance Group	
Traders Group Limited	$ 3,350
Trans Canada Credit Corporation Limited	1,960
Traders Realty Limited	200
Interprovincial Building Credits, Ltd.	297
Traders Mortgage Company	37
Homeplan Realty Limited	19
Aetna Factors Corporation Ltd.	622
	6,485
Insurance Group	37
Industrial Group	102
	$ 6,624

These amounts are considered adequate to meet credit losses and were based on a systematic review of all accounts by management.

FIXED ASSETS

Land, buildings and equipment

	Cost: Land and Buildings	Cost: Equipment	Cost: Total	Accumulated Depreciation	Net Book Value
Finance Group	$3,376	$5,010	$ 8,386	$3,901	$4,485
Insurance Group	2,420	970	3,390	522	2,868
Industrial Group	1,193	2,734	3,927	2,201	1,726
	$6,989	$8,714	$15,703	$6,624	$9,079

Unamortized cost of assets in hands of lessees

The cost of these assets is amortized in full over the term of each individual lease.

OTHER ASSETS

Unamortized cost of borrowed money

The discount or commission on each issue of long term collateral trust notes or debentures and on each short term

note is amortized over the term of the issue or note. On prepayment, unamortized discount is written off.

Unamortized cost of issuing Series A preferred shares

The cost of issuing the Series A preferred shares is being amortized to surplus over the six years to October 1, 1971, the date on which the privilege of converting into Class A common shares expires. The appropriate unamortized cost is written off to surplus on conversion, purchase or redemption.

[illegible]

PAYABLES

Accounts payable and accrued charges

Finance Group	$ 5,497
Insurance Group	1,797
Industrial Group	1,799
	$ 9,093

The major portion of the Finance Group total is balances of factored accounts payable to clients. The remaining balances are ordinary accounts payable and accrued charges.

Wholesale due to manufacturers

Amounts payable by Traders to manufacturers for stock in hands of dealers at December 31, 1968.

Insurance claims

Liability for outstanding insurance claims based on a detailed review of open claim files and a provision for late reported claims.

Dealers' credit balances

Amounts owing to dealers which will be paid to them or applied in settlement of amounts owing to the company.

SECURED DEBT

Collateral trust notes

The collateral trust notes are secured by (a) a first fixed and specific mortgage and charge of and upon instalment obligations and/or approved securities and by (b) a first floating charge on the undertaking and other property and assets of the company.

Bank loans of subsidiaries

Aetna Factors Corporation Ltd.	$ 3,920
Traders Mortgage Company	1,884
	$ 5,804

These loans are made to the above subsidiaries and are secured by receivables and other similar assets.

Mortgages and mortgage bonds

Mortgages payable		
Finance Group		$ 1,418
Insurance Group		1,391
Industrial Group		507
		$ 3,316
Mortgage Bond on Traders Building	$ 1,139	
less—held by Insurance Group	661	
		478
		$ 3,794

Mortgages payable by the Finance Group consist mainly of mortgages on inventory of land under development by subsidiaries.

OTHER DEBT

Debentures of subsidiary

The outstanding balance of an issue made by Interprovincial Building Credits, Ltd. prior to its acquisition by Traders.

Notes payable by subsidiary

Short term notes of Aetna Factors Corporation Ltd.

UNEARNED INCOME

Finance charges	% to Instalment contracts outstanding	
Traders Group Limited	9.9	$ 20,279
Trans Canada Credit Corporation Limited	17.8	8,076
Interprovincial Building Credits, Ltd.	28.9	13,263
	14.1	$ 41,618

The unearned finance charges will be taken into income in the future as instalments are due.

CAPITAL AND SURPLUS

Common shares

	In Canada	Non-Resident	Total
Number of Shareholders	14,195	575	14,770
Percentage	96	4	100

Finance Group

Inflationary trends in the economy in 1968, together with increasing competition from the banks and credit unions, is influencing the tempo of change in the Finance Group far beyond what it was in the more distant past. There is also recognition that some traditional features of the finance business are not entirely compatible with today's swiftly changing business and legislative environment.

Change in the Finance Group is being controlled and implications to all areas of the business carefully assessed. The old Traders organization was built on its ability to compete in its market. The new Traders organization that is evolving is an extension of the sound operation and decision-making in earlier years. Three examples are particularly worth noting at this time:

1. The company is deeply and successfully involved today in industrial financing, because eight years ago this was recognized as a growth market.

2. Five years ago, the company acquired Interprovincial Building Credits, Ltd. to complement our growing range of financial services. Rather than attempt to completely integrate this company with Traders, the Homeplan Division has been allowed to develop its own market identity in keeping with its own service specialty.

3. The company's success over the years in the competitive auto financing field has built its name and good reputation in the marketplace. This has benefited greatly the ability of other portfolios to grow at accelerated rates.

1968 saw the Finance Group move toward a more normal contribution to the consolidated results of the company in relation to funds in use. In 1966, the Finance Group contributed only 40% of the consolidated net profit; in 1967, the contribution increased slightly to 45% and in 1968, achieved the more desirable level of 61%.

The Finance Group has adopted a policy of periodic change in the portfolio mix; that is, adjusting the allocation of funds to the line divisions. In today's costly money market (a condition which shows little likelihood of changing in the foreseeable future), we no longer consider it practical to maintain a fixed pattern in the portfolio mix. It must be subject to periodic adjustment compatible with achieving the profitability objectives set by management. This also minimizes the vulnerability of any one portfolio to competitive changes in the marketplace. We have, for example, concentrated over the past two years on building up the outstandings of the Personal Loan Division which had been showing a deterioration in a very aggressive market. Some of the other divisions, as a result, have experienced adjustments with respect to funds in use.

The effects of the Finance Group's funds in use policy has been felt most strongly in the Consumer Financing Division, because of its predominant size in relation to the other financial divisions of the company. We have had to deal with the realities of automobile financing which, both in the United States and Canada, has traditionally been a high-volume, low-profit type of business. While we expect automobile financing to remain a very substantial part of our business, our energies must be directed to improving the profitability of such financing. It is our intention to work closely with the automobile industry and its dealers to ensure that our company maintains a strong role in the Canadian automobile financing field.

With the development of a sound management base in the Finance Group, in terms of people and specialized experience, we are now beginning the task of looking more broadly than we have been equipped to do in the past at the future of the finance industry and the role we want our company to play in it. We must give recognition to the fact that the credit market in Canada is not only expanding rapidly, but is also moving in a number of new directions. Starting in 1969, the Finance Group will invest an increasing amount of time and effort to market research in line with the company's plans for the future.

Consumer Financing Division

	1968	1967
Outstandings Retail		
—Consumer portfolio . .	$130.5 million	
—Industrial portfolio . .	39.6 million	
	$170.1 million	$171.4 million
No. of Branches . .	84	93
Retail Receivables as % of Total Consolidated Assets	31.8	32.9

The Consumer Financing Division's 1968 operating performance was the best in recent years. Net operating profit on funds in use, after allowance for tax, increased by 22% from $874,000 in 1967 to $1.1 million in 1968.

Competitive pressures, limited money supply and rising administrative costs in the period since mid-1966 have had the effect of stimulating a wide range of changes beneficial to the short and long term future of the division. The more immediate emphasis has been on improving the over-all profitability of the division's largest portfolio, auto financing, while maintaining rates on a competitive basis.

Reaction to changes necessary to improvement has, understandably, been felt most strongly in the division's dealer and branch organizations. Studies of the division's operating efficiency, for example, indicated some branches should be closed and the responsibility expanded of those in the productive market locations.

As a consequence of these and related developments, the division in 1968 experienced a substantial return on its efforts—some a by-product of actions begun nearly 2½ years ago—to ensure its role for the foreseeable future as Traders' primary finance portfolio. Results:

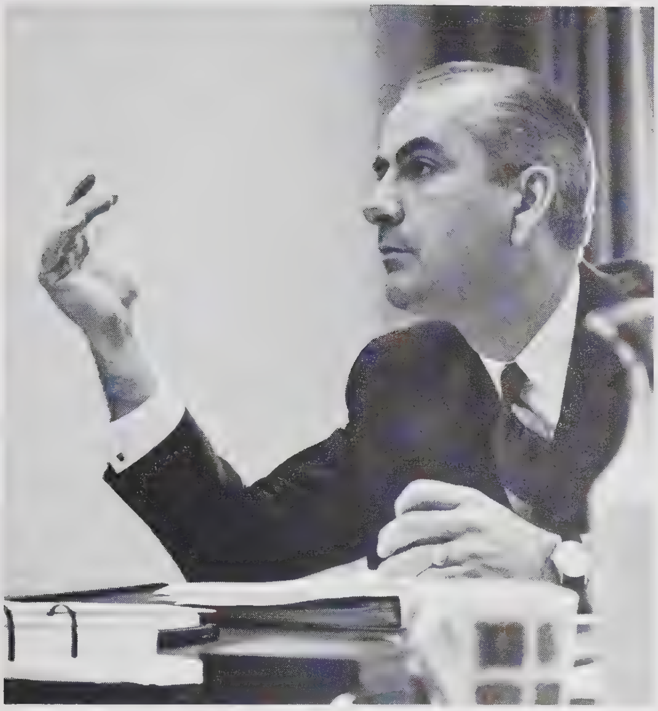
(a) gross income yields in 1968 up 7% over 1967;

(b) branch operating expenses (exclusive of money costs and head office expense allocations) reduced by 8% in 1968 over 1967;

(c) average profit contribution per branch increased 27.1% by year-end 1968, compared to same period a year ago.

These improvements will have a beneficial carry forward effect in 1969 and beyond.

While new business development has been restricted because of continuing adverse conditions in the Canadian money market, the division was able to increase its high yield retail consumer receivables to $130.5 million at year-end 1968, compared to $121



A. V. Steele, Vice President
Consumer Financing Division

million in 1967. Wholesale and leasing financing volumes were up slightly in 1968, while low yield capital loans were substantially down.

Sound credit principles, coupled with effective collection activity, saw total credit loss expense in 1968 reduced to .41% of outstandings, compared with .80% in 1967. During 1968, customer defaults outstanding decreased by 19.6%, while arrears ratios were maintained at record low levels.

In 1968, several marketing studies were initiated which, upon completion in 1969, will provide guidelines to the division's future product mix. A. V. Steele, vice president of the division, said in an address last year to auto dealers: "While we at Traders no longer rely exclusively for growth on sales financing of automobiles, our basic strength will continue in this field. But, we must look for and accept change in order to be competitive in the rates and the kinds of services we must provide the public in the future. We are now engaged in this kind of planning."

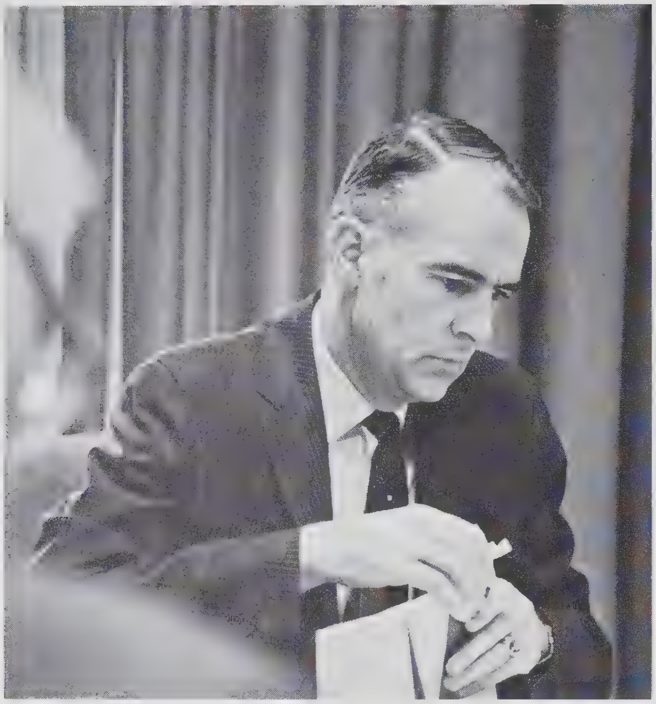
Personal Loan Division

	1968	1967
Outstandings . . .	$74.5 million	$60.0 million
No. of Branches . .	112	111
Receivables as % of Total Consolidated Assets	13.9	11.4

Restoration of the growth momentum of Trans Canada Credit Limited, Traders Personal Loan Division, progressed well in 1968. The division recorded its best growth year in its history as outstandings increased 24% over 1967 to $74.5 million. Since September, 1966 when outstandings stood at the unsatisfactory level of $47.9 million, they have increased by 55% in the interim 27-month period.

This expanded business volume in combination with further improvements in yields and cost controls, enabled the division to produce an after tax profit in 1968 of $888,000, compared with $287,000 in 1967, an increase of $601,000.

The major thrust for these achievements has been the management decision to concentrate on the cash loan business. Credit customers are showing an increasing preference to deal directly with cash lending institutions. At the same time, new credit granting standards



E. W. Flanagan, Vice President
Personal Loan Division

and management controls have measurably improved the quality of the division's portfolio and gives assurance that its progress is on a sound basis. This is reflected by:

(a) 30-day and over contractual arrears showed a further decline in 1968 to 6.5% which sustains a three-year favourable trend of improving the customer arrears rate.

(b) The division has built up its bad debt reserve from 2.2% of receivables in 1967 to 2.6% at year-end 1968.

(c) The division's recency of payments summary at year-end shows that balances of items on which there has been no pavment in six months have been reduced from 0.42% in 1967 to 0.25% at year-end 1968.

The division's general and administrative expenses declined from 40.6% of gross income in 1967 to 34.1% in 1968, even though the division expanded six branch satellite offices to full branch status and opened branches in four new marketing areas. Of major significance is the improved productivity of the individual branches based on increased outstandings per unit.

To exploit the opportunities inherent in the consumer trend toward cash credit, the division will add 15 new branches in 1969. With continued improvement in expense control and further growth in the earning assets of the division, it is not anticipated that this expansion will have any adverse effect on short-term future profits. More importantly, the branch expansion gives assurance that the division will have the sales structure to capitalize on the long-term growth opportunities in the Canadian credit field.

Industrial Financing Division

	1968	1967
Outstandings Retail		
—Industrial branches . .	$41.5 million	$91.2 million
—Consumer branches . .	39.6 million	
	$81.1 million	
No. of Industrial Branches . . .	9	9
No. of Co-ordinated Branches . . .	71	79
Receivables as % of Total Consolidated Assets	15.2	17.5

1968 year-end outstandings for the total Industrial portfolio were down approximately 11% from 1967 because of a reclassification and transfer to the Consumer portfolio of certain Industrial truck outstandings, combined with a planned reduction in outstandings consistent with required portfolio mix of total corporate resources. It should be noted that $39.6 million was handled on a co-ordinated basis through the Consumer Financing Division.

The effects of reduced funds in use by the Industrial Financing Division were counteracted effectively by good management performance in all operating areas. As a result, the division's net profit on funds in use in 1968 was up 26.5% over 1967. Arrears, losses and branch expenses were well below industry standards. This was accomplished by:

(a) continuation of stricter standards affecting credit evaluation of new paper purchased and renewal or extension proposals on existing paper;

(b) emphasis on the acquisition of high-yield paper;

(c) improved productivity and strengthening of the management base through reorganization of workloads and reporting relationships at the branch level.

The condition of the division's receivables at the year-end was excellent, with total payments in arrears of 30 days and over, representing only 1% of total receivables, as opposed to 1.8% a year ago. Ninety-three per cent of the receivables was equipment purchased at the retail level, five per cent was represented by wholesale advances to dealers and distributors and two per cent was in the form of capital loans to dealers.

G. D. Wallace, Vice President
Industrial Financing Division

Any equipment resulting from customer defaults is appraised on a monthly basis and any deficiency or loss exposure anticipated is then provided for by a charge to current earnings to increase the allowance for doubtful accounts.

The demand for industrial equipment financing in 1969 is expected to undergo expansion. This is evident as more and more Canadian businessmen prepare expenditure forecasts which indicate they intend to accelerate their acquisition of new capital assets in order to obtain the increased productivity so necessary to protect competitive positions both in Canada and abroad. As corporate funds become more available, the division is well geared to capitalize on this market development.

Homeplan Division

	1968	1967
Outstandings . . .	$56.5 million	$53.1 million
No. of Branches . .	20	20
Receivables as % of Total Consolidated Assets	10.6	10.2

In a major marketing move, the decision was made in 1968 to change the name of Interprovincial Building Credits, Ltd. to Traders Homeplan Limited.

The name change, which took effect January 2, 1969, was prompted by the benefits to be derived from closer identification in the marketplace with Traders. The change also draws attention to Homeplan's specialized service role. Traders Homeplan Limited is the only national company of its kind in Canada providing home improvement, vacation home and new rural home financing facilities for its dealers and customers.

Another corporate move by the division in 1968, was the formation of Homeplan Realty Limited, a wholly owned subsidiary of Traders Homeplan Limited. It was set up to enable the division to take mortgage security on major home improvements and to grant mortgages on a direct basis to the public for rural and vacation homes.

Management performance showed further improvement in 1968 as the division's net profit after tax contribution to the consolidated net profit increased from $289,000 in 1967 to $347,000 in 1968, an increase of 20%.

Conservative and well-defined credit policies in the division continue to prove excellent disciplines in

J. J. Bourbonniere, Vice President
Homeplan Division

keeping customer arrears down. The 30-day and over contractual balances in arrears were at a near-record low level last year of 2.1%. Homeplan financing differs in some respects from other forms of consumer financing, both with regard to product and methods of handling. To maintain the portfolio's high quality, management insists on:

(a) accepting business only from dealers supplying customers and Traders with complete price lists;

(b) controlling sales through direct contact with customers;

(c) inspecting vacation homes and rural homes financed;

(d) taking mortgage security on major home improvements, rural homes and vacation homes;

(e) ensuring customers are satisfied with a new dealer's performance prior to the release of funds.

Against the background of Canada's mounting housing crisis and the expansion of the leisure needs of consumers, the division is assured a growing market for its services.

Realty & Mortgage Division

The funds allocated to the division in 1968 permitted a modest increase in new mortgage lending. Profit contribution by the Land Development subsidiaries in 1968 increased for the fifth successive year, notwithstanding certain delays encountered in the registration of plans of subdivision of various developments.

Traders Realty Limited—Volume of new loans during 1968 was $8,814,206. Outstandings were reduced on a planned basis during the year from $30,295,000 to $25,180,000. While mortgage lending operations were satisfactory, Traders Realty showed a net loss because of the acquisition during the year of the Alexis Nihon Plaza in Montreal.

The plaza is built on leased land and Traders became the absolute owner of the rights of the previous lessee to the property in May, 1968. Financing has been arranged for the construction of a 427-suite apartment building and a 10-storey commercial building atop the plaza. Construction has commenced on the apartment building. It is expected that the addition of these two buildings will make the project self sustaining and profitable.

Forest Glenn (Dixie) Limited—The company now has only one large apartment site remaining unsold in its developed lands in Cooksville. Earnings of the company were greater than in 1967. The company has major land holdings adjacent to the Metro Toronto area on which development is in the planning stages.

The Green Glenn Developments project in Edmonton, Alberta experienced a large increase in sales and construction activity in 1968, primarily due to additional mortgage funds becoming available to builders. Sales were arranged in 1968 for almost the entire first phase and it is anticipated that the second phase of this development will move rapidly forward in 1969.

Traders Developments Limited—Substantial earnings are expected from the Kitchener and Windsor projects in 1969. Sales have been arranged for serviced lots in both areas after minor delays in registration of the initial phases.

E. W. Fingarson, Vice President
Realty & Mortgage Division

Domac Realty Limited—All of this company's properties were sold in 1968. The company holds vendor mortgages in connection with the sale of the Ottawa properties and it is expected that there will be no substantial change in the status of this company as long as these mortgages are outstanding.

Aetna Factors Corporation Ltd.

In 1968, Aetna recorded for the 14th consecutive year an increase in volume. At the same time, favourable expense and credit loss ratios were maintained with the result that profit was the highest ever recorded by the company.

Volume of receivables purchased increased 18.6% from $113,885,000 in 1967 to $135,022,000 in 1968. At the year end, receivables outstanding were $13,174,466 compared with $10,138,721 at the same date last year. Net earnings after taxes totalled $377,392, an increase of 36.3% over $276,896 for the year 1967. Profit gains and decreases in credit losses have been achieved coincident with substantial volume growth. This reflects increased emphasis on guarantee and letter of credit financing as well as expansion of traditional factoring services. Expenses in 1968 were $1,525,304, compared with $1,425,861 in 1967. Expressed as a percentage of volume of receivables purchased, they were 1.13% in 1968 and 1.25% in 1967.

Aetna Factors provides widely diversified financial services in an expanding market for a growing list of Canadian and non-resident corporate clients. With the company's entry this year into Factors Chain International, a world-wide organization of financial services companies, an important new role is now being filled by Aetna. As the only Canadian member of Factors Chain, Aetna provides credit approvals and guarantees, sales agency and distribution counsel for Canadian companies exporting abroad, and reciprocally, through foreign member companies of Factors Chain International, similar services to companies doing business in Canada.

Insurance Group

Canadian General Insurance Company
Toronto General Insurance Company
Traders General Insurance Company

The Insurance Group experienced in 1968 an unusually high frequency of automobile insurance claims, as well as higher claim costs, which, coupled with a general reduction in automobile premium rates, reduced earnings below the 1967 level.

After allowances for taxes and depreciation, the operating profit in 1968 was $1.7 million, compared to $2.1 million in 1967. The year's operation provided a return on capital employed of 9.0%, as compared with 11.8% in 1967. The 10-year average return on capital is 7.9%.

For the 10-year period ended December 31, 1968, the Group's gross written premiums increased from $13.3 million in 1959 to $31.6 million in 1968. Capital and surplus in the same period increased from $10.1 million to $18.3 million in 1968. Total assets increased from $24 million to $54.2 million. The three companies which make up the Insurance Group now rank fourth in Canada among purely domestic insurance companies and, with the inclusion of the foreign companies, rank twelfth.

In 1968 the Insurance Group's prestige Head Office building at 170 University Avenue, Toronto, was purchased from Traders.

The high degree of inflationary pressure throughout the country continued to have a serious effect on the cost of claims settlements in all classes of business. Additionally, it has caused further problems in the Property Fire Insurance account in terms of obtaining proper insurance to value and adequate rate levels to permit us to keep ahead of spiralling costs. These matters are being constantly reviewed in order that suitable corrective action to obtain equitable rates can be taken.

It is anticipated the Group's growth and earnings will continue at a satisfactory level in 1969.

Industrial Group

Frankel Structural Steel Limited

Net profit, after tax, of Frankel Structural Steel Limited, the main operating company of the Industrial Group, was nine per cent higher in 1968 than in the previous year. Prices remained extremely competitive, and costs of work continued to increase. However, volume of work available increased in the last six months of the year. This, together with tighter cost controls, resulted in considerably better results than were anticipated earlier in the year.

Major projects completed included the Medical Science Building at the University of Toronto; Algoma Steel Corporation's new 160-Inch Plate Mill; extensions to Canadian Kodak's Office Building and the B. F. Goodrich's Plant in Kitchener, together with Frankel's work on the structural steel frame and cladding for the second tower of the Toronto-Dominion Centre.

Frankel's work backlog at the year-end was relatively low. However, it is anticipated that demands for the company's products and services will be high in 1969 as increased industrial construction in Ontario is expected. Results for the year 1969 should be profitable but, as was the case in 1968, will be affected by severe competition and by the results of major labour negotiations in Ontario's construction industry.

Continuing the company's policy of providing greater management depth, Mr. Geoffrey J. Jackson joined the company in April, 1968 as Vice President of Operations. He is a graduate in civil engineering from Loughborough College, England, and has held senior management positions in the steel fabricating industry in Ontario and Quebec.

Property has been purchased which will allow replacement of Frankel's present downtown plant facilities with a modern and more efficient plant on the outskirts of Metropolitan Toronto within the next few years.

Frankel Formwork Company

1968 profit of Frankel Formwork Company was also higher than in 1967. This company commenced 1969 with a substantial backlog, including formwork for the Weldon Library Building—University of Western Ontario; Erindale College, Mississauga, Ontario, and The Water Purification Plant in Kingston, Ontario.

Effective January 1, 1969, this company will operate as a wholly owned division of Frankel Steel Construction Limited under the management of Mr. Sven Ehvert, who joined the company in December, 1968 after many years experience in general contracting and concrete formwork in particular.

MATURITIES OF OPERATING ASSETS AND LIABILITIES

Traders Group and Principal Finance Subsidiaries*	Operating Assets	Operating Liabilities	Difference
	. . . In Thousands . . .		
1969	$253,210	$136,104	$117,106
1970	102,037	25,119	76,918
1971	38,523	14,506	24,017
1972	12,540	5,680	6,860
1973	13,676	11,655	2,021
1974-1978		27,292	
1979-1983	14,270	56,144	(167,424)
1984-1988		98,258	
INVESTMENTS	7,143	—	7,143
	441,399	374,758	66,641
Insurance, Industrial and other Finance Subsidiaries	80,023	37,568	42,455
Per Consolidated Balance Sheet	$521,422	$412,326	$109,096

ANALYSIS OF NOTES, MORTGAGES AND ACCOUNTS RECEIVABLE

Traders Group and Principal Finance Subsidiaries*	December 31, 1968	1967	1966	1965	1964
	. . . In Thousands . . .				
RETAIL					
Passenger Cars—New	$ 62,180	$ 63,823	$ 65,640	$ 67,127	$ 63,234
Passenger Cars—Used	29,675	30,931	31,093	34,852	34,516
Trucks & Farm Equipment	29,897	19,186	107,961	127,782	126,312
Heavy Trucks, Commercial and Industrial Equipment	68,319	79,332			
Other Products	14,396	17,321	11,228	15,997	23,821
	204,467	210,593	215,922	245,758	247,883
Wholesale	59,003	55,680	58,680	70,927	55,525
Leasing	5,185	5,609	5,842	7,955	†
Dealer Loans	8,714	11,746	12,944		
Mortgage Loans	26,054	31,543	43,535	71,293	54,709
Real Property Held for Resale	6,536	4,355	2,963		
Personal Loans	74,534	59,987	50,736	55,454	58,444
Home Improvement Loans	54,000	50,345	43,899	44,974	24,233
	438,493	429,858	434,521	496,361	440,794
Insurance, Industrial and other Finance Subsidiaries	33,667	28,176	29,931	32,777	26,538
Per Consolidated Balance Sheet	$472,160	$458,034	$464,452	$529,138	$467,332

* Trans Canada Credit Corporation Limited
Traders Realty Limited
Interprovincial Building Credits, Ltd.
Homeplan Realty Limited

†Included in Retail

COMPARATIVE SUMMARY OF CONSOLIDATED FINANCIAL STATISTICS

. . . In Thousands . . .

	1968	1967	1966	1965	1964	1960	1955
Total Assets	$534,705	$521,737	$523,651	$583,504	$525,505	$351,157	$247,905
Notes, Mortgages and Accounts Receivable (Gross)	472,160	458,034	464,452	529,138	467,332	310,295	219,361
Secured and other Debt	361,238	357,018	362,004	418,834	391,177	259,240	173,065
Preferred Shares	13,658	14,117	14,476	14,664	4,139	7,462	8,025
Common Shares and Surplus	51,502	48,877	47,686	47,982	45,348	33,877	28,378
Total Income	96,928	93,449	95,169	98,001	85,866	50,296	not available
Interest and Borrowing Costs	23,474	21,857	21,969	22,886	18,895	13,063	5,432
Insurance Claims Incurred	17,372	15,314	14,849	12,284	10,781	7,845	5,453
Administrative Expenses and Depreciation	22,856	22,832	21,953	21,183	19,651	13,186	8,867
Net Profit after Taxes and Minority Interest	5,619	4,725	3,981	6,012	5,520	4,189	4,686
Net Profit available for Common Shares	4,926	4,014	3,256	5,676	5,315	3,814	4,282
Common Shares Dividends Paid	2,654	2,652	3,536	3,530	3,515	3,044	2,930
Number of Shares outstanding	4,433	4,420	4,420	4,414	4,402	3,805*	3,712*
Earned per share	$1.11	$0.91	$0.74	$1.28	$1.21	$1.00*	$1.15*
Paid per share	$0.60	$0.60	$0.80	$0.80	$0.80	$0.80*	$0.80*

*On comparative basis to reflect 3 for 1 split in May, 1962.

Traders Group Limited

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